

An investors view on the Russian carbon market

Side Event: National Carbon Sequestration Foundation (NCSF)
Implementation of the Kyoto Protocol in Russia: current status and outlook

Bali, 6th December 2007

Carbon Trade & Finance



- Carbon Trade & Finance is a joint venture between Dresdner Bank (via its investment bank Dresdner Kleinwort) and Gazprombank to capture opportunities in the carbon market with a focus on Russia and the Commonwealth of Independent States (CIS).
- Gazprombank is one of Russia's leading banks and the authorised bank of OAO Gazprom – one of the world's largest energy groups.
- Dresdner Kleinwort is the investment bank of Dresdner Bank AG and a member of Allianz. Dresdner Kleinwort is a prominent player in the emissions and renewable markets. Dresdner Kleinwort was voted 'Emissions Trading House of the Year' in 2006 by 'The Banker' and executed among others the first ever ISDA documented EU allowance trade in June 2004.





Russia and Kyoto

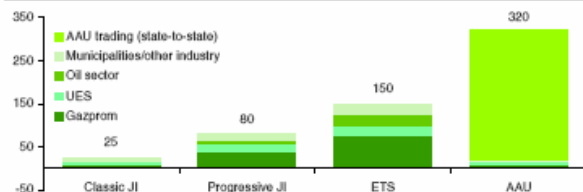
Match made in heaven?

An energy sector perspective

Russia's ratification has 'rescued' the Protocol, but its large surplus, and potential for more, poses a dilemma. A system based on emission trading could yield the highest GHG reductions, but political and administrative hurdles make 2008-12 challenging. Russian industry has little to fear with Gazprom the best positioned to benefit.

- **Russia's participation matters enormously:** The Kyoto Protocol now comes into force on 16 February 2005, and with 17.4% of 1990 CO₂ emissions in the industrialised world, and a projected large surplus of credits in 2008-12, Russia's ratification and participation have transformed the Kyoto Protocol on many levels.
- **Corporate impact:** Kyoto is more an opportunity for Russian industry, than a threat, in our view. Gazprom is best positioned to be the main beneficiary while UES and the oil sector also have substantial potential. The overall impact ultimately depends on the mechanisms adopted.
- **Russian credits:** The size of the market will depend on the flexible mechanisms adopted. At one extreme, the market could be flooded with over 300mtpa in uninhibited AAU trading, but this is very unlikely in our view. At the other extreme, JI projects could be restricted to less than 25mtpa because of the additionality requirement and transaction costs. A more flexible approach to JI could see the credit market rise to 80mtpa while selective linking with the EU ETS could double it to 150mtpa.

Potential market for Russian GHG emission credits (mtCO₂e/year for 2008-12)

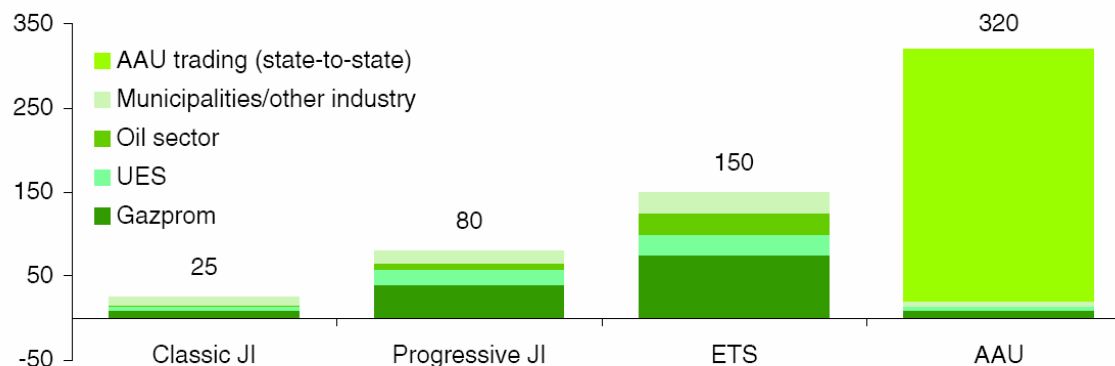


Source: DRKW Equity research estimates

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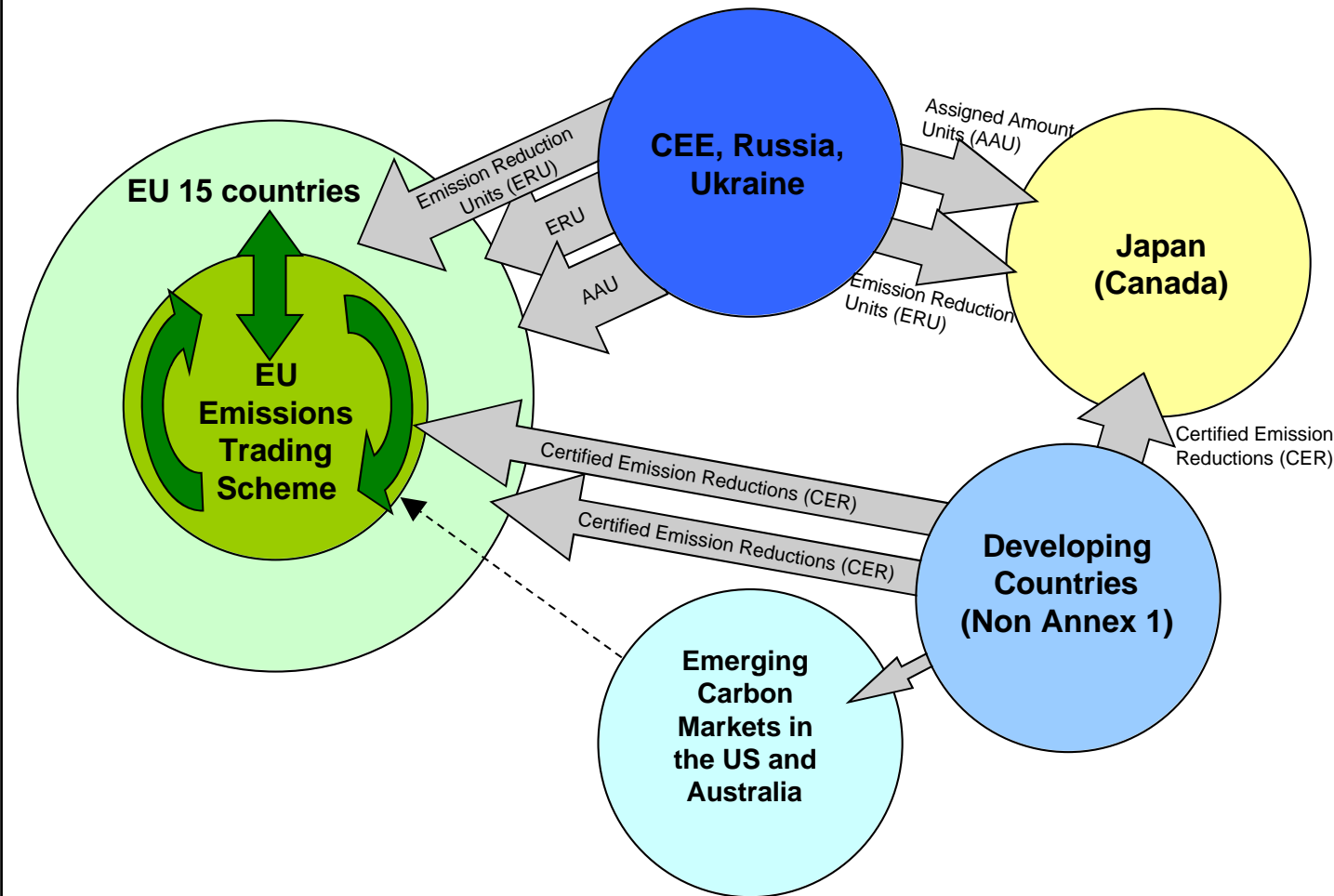


Source: DRKW Equity research estimates

GHG Green House Gases
AAU Agreed Amount Unit (a country's emission cap under Kyoto Protocol)
ETS Emission Trading System
EUA EU allowances (part of EU ETS)
JI Joint Implementation project (ERU)
ERU Emission Reduction Unit from JI
CDM Clean Development Mechanism (CER)
CER Certified Emission Reduction from CDM

Source: CMS, DRKW Equity research

The global carbon market



- The carbon market is the fastest growing financial market in the last years.
- Turnover in the carbon market was approximately EUR 22 bio. in 2006, EU ETS share above 80% CDM: 17% / JI below 1% (remaining other markets including VERs)
- Turnover in H12007 of approximately EUR 16 bio. EU ETS: 73% / CDM: 26% / JI: 5%
- CDM and JI project pipeline
CDM: 2,647 projects with 2,287 mio. t CO₂e
JI: 197 projects with 207 mio. t CO₂e
- Most of the JI projects are renewable energy (79 projects or 40%) and CH₄ reduction (62 projects or 31%), while most of the ERUs are generated by CH₄ reduction projects.
- CDM most projects renewables (1,609 projects 61%), most credits HFCs, PFCs, N₂O.
- Russia and Ukraine dominate the JI market with 80 projects (52 + 28) and 29 mio. tonnes per year (20 mio. + 9 mio.) vs. 42 mio. tonnes per year in all JI countries.

⇒ **Carbon Portfolios are currently heavily skewed towards CDM and in particular China. JI projects are needed to diversify the portfolio and reduce the concentration / portfolio risk.**

JI: Providing diversification to carbon portfolios

- The two potential giants of the JI market are Ukraine and Russia.
- Russia has a huge potential to host Joint Implementation (JI) projects as well as embarking on emissions trading (AAUs).
- We would expect that approximately 400 million tonnes of carbon credits will be generated through JI in general between 2008 and 2012.

- **Number of credits available**

Mt CO ₂ e	2005	2006	2007	2008	2009	2010	2011	2012	Total
Existing									
CDM		28	134	183	188	189	186	183	1,091
JI				30	30	30	30	30	150
Future									
CDM			6	49	107	171	234	297	864
JI				50	50	50	50	50	250
Total credits available (risk adjusted)		28	134	312	375	440	500	560	2,355

Source: DKIB Carbon Derby

Russian JI projects at validation and determination

Sector	Number of projects	Total ERUs in 1.000t	Share of Total ERUs in %
Biogas	1	682	1
Biomass energy	6	3,974	4
Coal bed/mine methane	1	1,442	1
EE Industry	2	3,503	4
EE supply side	7	7,335	7
Energy distribution	2	586	1
Fossil fuel switch	6	10,518	11
Fugitive	20	58,358	58
Hydro	1	33	0
Landfill gas	4	7,559	8
N ₂ O	2	5,841	6
Total	52	99,831	100

Source: Unep Risoe

23.10.07. OGK-5 AND CARBON TRADE & FINANCE SICAR S.A. SIGN MEMORANDUM OF UNDERSTANDING

JSC OGK-5 and Carbon Trade & Finance have signed a Memorandum of Understanding, which implies involvement of this company to work out opportunities related to Joint Implementation projects under the Kyoto Protocol within the framework of the implementation of the project for the construction of a new CCGT unit at Nevinnomyskaya GRES.

Carbon Trade & Finance is a specialized joint enterprise created by Dresdner Bank and OAO Gazprombank. The Company will provide OGK-5 with recommendations on preparation of project documentation, as well as render assistance during the elaboration of the Joint Implementation project.

Moreover, the Memorandum parties intend to enter into a purchase or investment agreement related to carbon credits.

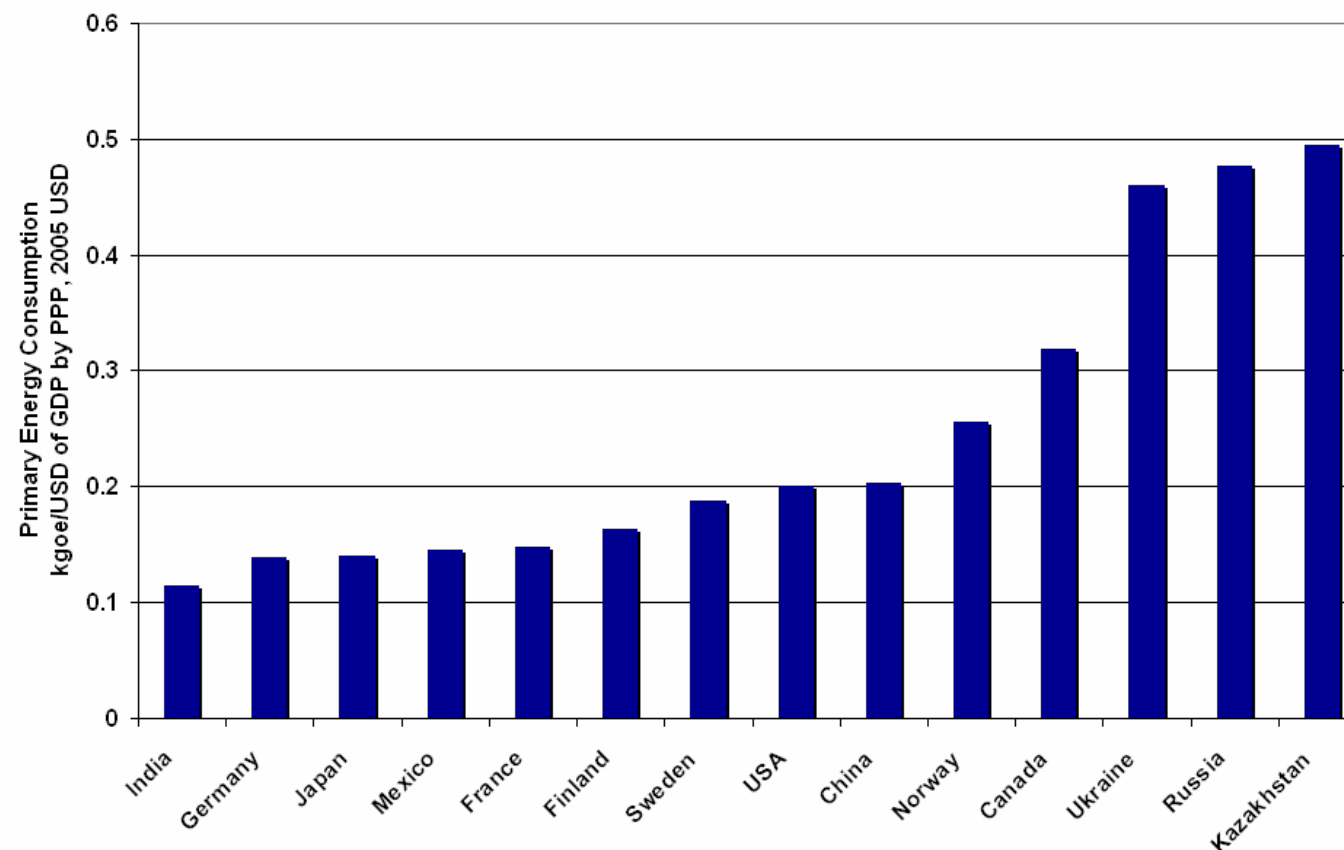
"Cooperation on the Kyoto Protocol is a very important source of funding and support to help reduce carbon emissions", said Mikhail Krupin, CFO of OGK-5. "This agreement makes us one of the very first companies in Russia to take advantage of this arrangement and we are looking forward to exploit the opportunities together with Carbon Trade & Finance".

"We are excited about the chance to work with OGK-5." said Matthew Shaw, Executive Director at Carbon Trade & Finance. "This is a market of immense potential and we believe that emissions trading and joint implementation provides Russian companies in the power sector with opportunities to help fund environmentally sound expansion of capacity."

Source: Press release OGK-5

Opportunities in improving energy efficiency

- High energy intensity reflects in part the cold climate and heavy industrialization, but is also a function of low energy pricing and the age of the capital stock.

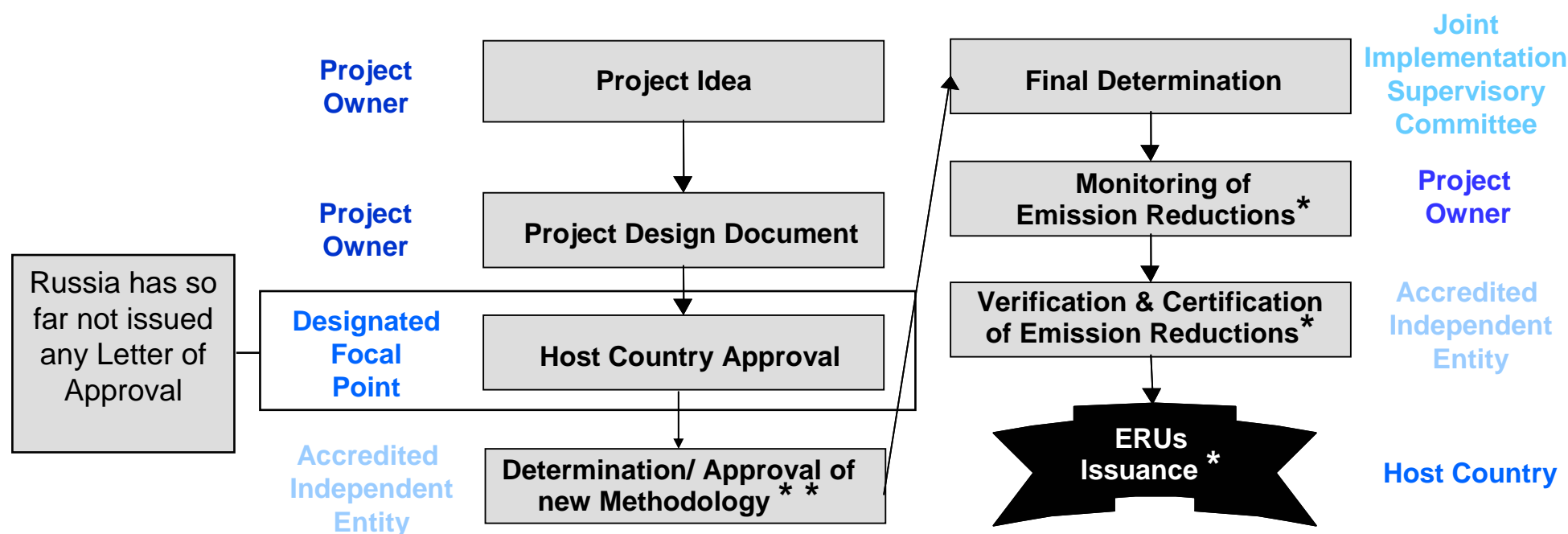


Source: World Bank / BP

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Map 2

Generating Emission Reduction Units



* periodically during crediting time
* * unless approved method is used

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